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SUBJECT: HOPES AND FEARS OF MEKONG DELTA REST WITH ITS DEVELOPING
SEAFOOD INDUSTRY

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11. (SBU) Summary: In anticipation of possible changes to the way the United States regulates imported Vietnamese tra and basa ("catfish"), Senior Investigator David Nelson from the House of Representatives' Committee on Energy and Commerce visited seafood producers in the Mekong Delta on December 9 and 10, 12008. Without exception, the producers stressed that the stringent hygiene requirements of their overseas customers have forced the modernization and improvement of aquaculture, processing, monitoring, and testing capacity in Vietnam, often employing products and technologies imported from the United States. Increasingly, Vietnamese producers are buying U.S. technology to ensure export safety and U.S. feed inputs like soy meal to improve the quality of aquaculture products. Despite these gains, safety gaps persist: GVN regulations lack bite, and uncertified inputs may still enter the production chain. The Delta's seafood producers continue to seek engagement with food regulators to increase both productivity and safety. Post continues to engage GVN regulators and private and public sector producers on fish safety issues and facilitate USG training and capacity building efforts. End summary.

Threat of Losing Markets Prompted Safety Improvements

12. (SBU) Vietnam had more import detentions than any other seafood exporter to the United States in 2001. When this wave of contaminated seafood exports closed markets to Vietnamese seafood products earlier in the decade, the GVN mandated testing for all shipments bound to key markets (including the United States), leading seafood producers to invest heavily in seafood safety to maintain overseas market share. Consequently, Vietnam's seafood safety record improved significantly. Last year, the GVN scaled back its mandatory testing regime for U.S.-bound shipments, shifting to producers the responsibility for many routine quality and safety tests. Following their earlier meetings with regulatory officials in Hanoi (septel), Chief Investigator Nelson and Investigative Counsel Krista Rosenthal examined Vietnamese aquaculture practices, processing facilities, as well as monitoring and testing capacity of a range of seafood producers, noting continuing progress and remaining challenges.

Private Sector Expanding Safety Testing Capacity

13. (SBU) In an office adorned with certificates from U.S. and

European food safety auditors, as well as Kosher and Hallal certifying organizations, the founder and president of Can Tho city based Hiep Than Seafood company proudly noted that none of the firm's \$40 million dollars' of seafood exports has been refused entry in the company's two year history. He attributed this to continuous food safety training for employees, modern processing facilities, and a rigorous inspection regime. Company engineers test every shipment for microorganisms and outsource testing for banned antibiotics to the global safety auditing firm Intertek.

¶4. (SBU) While outsourcing testing to international firms is an option in Can Tho, the Mekong Delta's largest city, the joint-venture Kim Anh company in outlying Soc Trang province had to build its own testing facility. Hit hard by anti-dumping duties on exports to the United States in 2003, the firm moved to high-end seafood products like sushi, tempura and breaded catfish. To simplify quality control, the company adopted the most rigorous safety requirements of its numerous import markets and built a laboratory comparable to that of Vietnam's national quality assurance lab. "Only one or two containers every several years of the two thousand shipped abroad yearly" are refused entry for contamination, the company chairman told Staffdel.

¶5. (SBU) The General Director of the publicly held Min Phu Seafood Corporation told Staffdel that the company stopped using chemical additives in its shrimp ponds four years ago, and now depends on U.S. biotechnology products to maintain sanitary conditions. Located in the capital of Vietnam's southernmost province (and site of a regional GVN seafood inspection and testing center) the company pays the regional laboratory over 600 million VND (\$35,000) per month to test its shrimp exports, including those headed for Walmart and Costco in the United States. After touring their state-of-the-art shrimp processing facility, a delegation member noted that the plant "was better

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than most he'd seen in the United States."

Going Natural: Raising Shrimp without Chemicals

¶6. (SBU) The 100 percent U.S.-invested Hiep Thanh company stopped using drugs or chemicals entirely in 2005, and instead lowered shrimp density to three per square meter of surface water (in contrast with densities of ten or more typical of commercial shrimp farms). Made possible by cheap land (the company leases over 1900 acres from the Bac Lieu provincial government) this environmentally-friendly method produces healthier 'natural' shrimp, according to company officials.

¶7. (SBU) All of the seafood processors visited by Staffdel Nelson contracted with small farmers to supplement company-raised seafood, providing feed, technology, and know-how. They are in various stages of developing 'pond to plate' product identification systems that will allow them to determine the date of harvest and origin of any processed product. Kim An, for instance, can track each box back to a particular pond to determine feed contents on any given day.

U.S.-Vietnam Seafood Trade a Two-Way Street

¶8. (SBU) Every seafood exporter we spoke to said they used American inputs in their products, ranging from ground soybeans for fish feed to micro biotic technology to clean shrimp ponds. Several collaborate with U.S. researchers to develop custom shrimp varieties, while others use U.S. seafood quality auditors to conduct sanitation and certification checks. These inputs were a major factor in the doubling of U.S. agricultural exports to Vietnam in 2007, a trend that continues to grow in 2008. U.S. soybean exports to Vietnam, for example, are up nearly 300 percent this year. While a portion of the resulting seafood is shipped back to the United States, much of it is also shipped to Europe, the Middle East and other world markets.

Aquaculture the biggest game in town

¶9. (SBU) Mekong Delta catfish (26 percent) and shrimp (40 percent) are the largest components of Vietnam's aquatic exports, which grew over 12 percent to reach \$3.76 billion (5.3 percent of GDP) in 2007. Seafood processors are among the Mekong Delta's largest employers -- the four companies visited employ over 9,000 workers directly and many thousands more as contract farmers. As the Mekong Delta provinces lack land transportation infrastructure and are not rich in other natural resources, development of a modern seafood processing industry was crucial in reducing poverty in the region and maintaining current economic growth.

¶10. (SBU) Investing in quality control measures to meet developed countries' safety standards is a hurdle faced by all developing country seafood exporters, and those that meet those standards most quickly will come out ahead in international trade. In that sense, improvements in the Mekong Delta's seafood safety record have come none too soon as a number of large Chinese catfish and five shrimp processors are likely to enter the market in the near future. These Chinese products may comprise Vietnam's stiffest competition in the coming year.

Gaps Persist in Safety Control

¶11. (SBU) Although seafood processors have modernized aquaculture and processing and greatly improved monitoring and testing capacity, gaps clearly remain in the seafood safety control system. The fish and shrimp provided by contract farmers remain outside the company's quality control regimes though they are tested on export. Despite a government ban, one of the processors visited still 'cage-farmed' catfish, and although these fish made up only one and two percent of the firm's total production, it is possible that they could enter the export chain. Meanwhile the GVN regulatory regime does not include administrative fines or criminal penalties for unsanitary or adulterated shipments. Producers said that in such 'extreme cases' regulatory agencies could revoke a firm's export license, though none could recall such an occurrence. To the producers, the only deterrent was the major costs incurred by a returned shipment.

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Improving Food Safety Going Forward

¶12. (SBU) Nevertheless all of our interlocutors were passionate about safety, eager to learn of any changes in U.S import requirements and working to assure the safety of their exports with the technology or testing most appropriate to their circumstances. Staffdel noted the sharp contrast between Hanoi, where officials told them that processors are allowed to export if no contaminants are found during quarterly or biannual inspections, and with the companies themselves which say they not only meet the GVN regulations but exceed them in order to meet the testing requirements of their exports market regulators, their customers and standards/certifying organizations.

Comment:

13 (SBU) Vietnam's seafood industry has been the driving force behind the development of the "deep south" provinces of the Mekong Delta, which otherwise rank among the poorest in the country. The GVN pays close attention, since the industry is the largest employer in the region with an estimate two million jobs nationwide, and the Delta suffers each report of major market disruptions -- on trade issues (e.g., antidumping orders) or product safety issues (e.g., export detentions orders due to proscribed substances). Enlightened self-interest encourages the seafood exporters' industrial organization to push provincial officials and national regulators to improve standards and testing services. Finally, the aquaculture industry is a big part of the rapid increase in U.S. agriculture exports to Vietnam; set to top one billion dollars for the first time in 2008. End comment.

¶14. (U) This cable was coordinated with Embassy Hanoi.
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